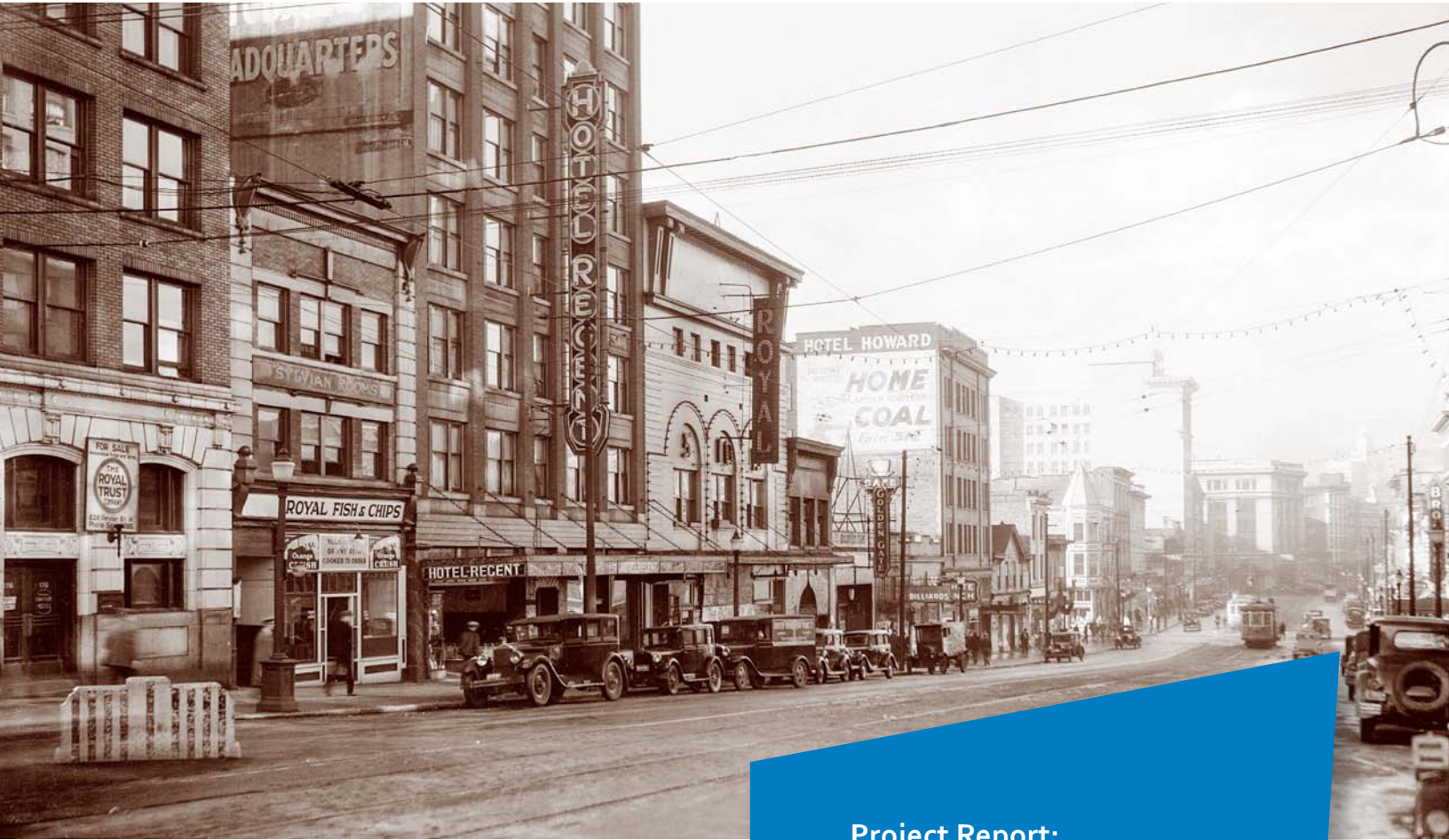




BC Housing



Project Report:
SRO Renewal Initiative
June 2013



partnerships
British Columbia

Purpose of this Report

The purpose of this report is to provide key information to the public about the Single Room Occupancy (SRO) Renewal Initiative (SRI project or the Project). This report describes the need for the Project and how it will be delivered. The report explains how different procurement delivery methods were analyzed, and how project benefits and innovations are expected to be achieved. A summary of the key aspects of the Project Agreement is also provided.

In all of its procurement processes, the Province of British Columbia (B.C.) is committed to a high standard of disclosure as part of its accountability for the delivery of public projects. Ministries, Crown Corporations and other government agencies are publicly accountable for projects through regular budgeting, auditing and reporting processes.

The SRO Renewal Initiative Project Executive Board, which includes representatives from the Ministry of Energy, Mines and Natural Gas and Ministry responsible for Housing; the Ministry of Transportation and Infrastructure; the Ministry of Finance; the British Columbia Housing Management Commission (BC Housing); and Partnerships British Columbia (Partnerships BC), is accountable for the contents of this project report.

Defined Terms and Abbreviations

Capitalized terms are defined in the glossary at the end of this report.

Abbreviations are defined in the table below:

DBB	Design Bid Build
DBFM	Design Build Finance Maintain
DTES	Downtown Eastside
NPC	Net Present Cost
PPP	Public Private Partnership
RFP	Request for Proposals
RFQ	Request for Qualifications
SRO	Single Room Occupancy Hotel
SRI	Single Room Occupancy Renewal Initiative
VFM	Value for Money

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1 Executive Summary

Since 1967, BC Housing has been providing leadership and delivering strategic approaches to addressing the ongoing need of providing safe, affordable and supportive housing for British Columbia's (B.C.) most vulnerable citizens and those with low incomes.

In recent years, BC Housing has placed a greater priority on the urgent need to address the increased homeless population¹ across the province and in particular, in the City of Vancouver's Downtown Eastside (DTES).

An increase in the homeless population and the associated costs for the DTES community has been extremely high, both socially and economically. One of the oldest neighbourhoods in Vancouver, this community has the largest concentration of people that are homeless or living in poverty. In addition, many are coping with complex challenges such as drug and alcohol addictions, mental illness and other chronic health issues.

BC Housing has been working with the community to understand housing-related issues, develop solutions and address the barriers facing this vulnerable group of people. At the core of the issue was a severe shortage of safe, affordable and habitable housing in the DTES.

In 2007, the Province directed BC Housing to purchase 24 Single Room Occupancy (SRO) hotels in the DTES and surrounding areas to preserve and protect these economically vulnerable units for social housing. Many of these buildings were in poor condition when purchased and although initial upgrades were undertaken to address immediate health and safety concerns, it was not enough to improve basic living standards.

Without further renovations, the provincially owned SROs would continue to seriously deteriorate, become more expensive to repair over time and ultimately, become uninhabitable. This would negatively impact the ability of BC Housing to provide supportive housing in the DTES. The potential for this vulnerable group of people sliding back into homelessness was not acceptable and therefore, BC Housing took immediate action to address the issue.

In October 2011, BC Housing announced the SRO Renewal Initiative project (SRI project, or the Project) to renew and restore 13 of the 24 SROs. The balance of the SROs had been substantially upgraded previously. The SRI project represents a significant opportunity to invest in a better future for the approximately 900 at-risk residents that call these buildings home. Once completed, the Project will provide residents with clean, affordable and safe long-term housing with access to integrated social programs and services.

In December 2012, BC Housing entered into a fixed-price, performance-based Project Agreement with Habitat Housing Initiative (HHI, or the private partner) to deliver the SRI project. HHI (led by Forum Equity Partners with Ameresco Canada Inc. and Black and McDonald as the key project subcontractors) will design, build, partially finance and maintain (DBFM) the Project over a term of 18 years, which includes the estimated construction period of three years. The total capital cost of the Project is \$143.3 million. This number includes costs for construction, equipment, temporary tenant accommodations, the competitive selection process, implementation and contingencies. The Project is funded by the Province of B.C. (the Province) and the Government of Canada.

HHI's proposal outlined creative solutions for temporary tenant relocation and construction challenges, which reduced the construction schedule by approximately 24 months, resulting in considerable cost savings.

¹ Housing Matters BC, October 2006, is an innovative and comprehensive provincial housing strategy helping those in the greatest need access safe, affordable housing.

Their creative solution included securing and upgrading up to 175 privately-owned rental units in the DTES for the duration of the construction period to be used as temporary residential accommodation. The benefit of this approach will allow construction crews to gain access to each SRO sooner and complete renovations more expeditiously than previously thought attainable by project planners. This also means residents relocated during renovations will remain in the community they currently reside in, and maintain access to programs and services. More important, residents will regain use of their renewed homes much sooner due to a shorter construction period.

An important legacy of the Project, these restored private sector units will eventually be added to the inventory of privately-owned SRO hotel rooms available in the community.

During the construction period, buildings will be renovated and put back in service as soon as they become available. Throughout the time period leading up to completion of all 13 buildings, HHI will receive payments for each building once completed, which includes payment for providing a range of facilities management services. Upon completion of the 13th building, BC Housing will pay HHI an annual service payment (ASP) over the 15-year maintenance term. ASPs will be based on performance, facility availability and service quality. Service payments can be reduced if HHI does not meet the quality standards contained in the Project Agreement.

BC Housing's existing agreements with non-profit operating partners that provide tenant services and programs will remain unchanged and are not part of the Project Agreement with HHI.

A first in Canada, the Project is an innovative social housing model that will be delivered as a public private partnership (PPP). The decision to use the DBFM partnership model was based on a thorough analysis of procurement options and was confirmed as the best approach to meet Project objectives. The benefits of the DBFM partnership delivery model include:

- Competition and innovation
- Schedule certainty
- Cost certainty
- Integration
- Life cycle maintenance

The final partnership agreement between BC Housing and HHI is estimated to achieve a net present cost (NPC) value for money of \$5.2 million compared to a traditional procurement method.

2 Project Benefits and Key Features

The SRI project will renovate and restore 13 SROs with a combined space of approximately 40,000 square metres (m²). The Project supports BC Housing's efforts to create liveable homes for those in greatest need in Vancouver's DTES.

Key benefits of the Project are discussed below.

2.1 Social Benefits

SROs can be the first step off the street and an entry into the housing continuum for many people who are homeless or at-risk of homelessness.

Many of the residents living in SROs face complex challenges, such as mental illness, alcohol and drug addictions and physical disabilities. Research shows that when people have access to affordable housing in combination with social services and programs, they remain housed and are more likely to stabilize their lives, overcome addictions and work towards a better life.

The SRI project will provide a healthy and sustainable living environment that will help residents to live with stability, autonomy and dignity. For many of the residents, having a safe place they can call home and rely upon is vital in their journey to recovery. SROs support residents to have improved access to health care, doctors and clinicians. With stable accommodation, there are enhanced opportunities to look for work, hold down a job and develop a healthier lifestyle.

Additional social benefits of the Project include:

- Improving and enhancing the local streetscapes to enhance the overall sense of a community; and
- Creating new program spaces for the delivery of programs and services by non-profit organizations.

2.2 Renovations

All of the buildings in the Project are approximately 100 years old and urgently require renewal to create safer and reliable homes for residents. Rooms, amenity and programming space, bathrooms, commercial spaces and building exteriors will be renewed to ensure the long-term sustainability and reliability of this important housing stock for the next several decades.

The Project includes the following key elements:

- Seismic upgrades for basic life safety;
- Fire and life safety;
- Removal of hazardous materials;
- Remediation of harmful infestations (e.g. bed bugs and rodents);
- Interior room upgrades, such as lighting, locks and windows;
- New plumbing and electrical infrastructure;
- Renewed living and program spaces; and
- Heritage rehabilitation.

2.3 Housing Residents During Construction

During the construction period, many residents will be temporarily relocated. To ensure residents in temporary accommodation maintain continued access to services and programs in the neighbourhood, HHI identified additional accommodations in the DTES.

HHI has negotiated a lease for up to 175 privately-owned rental units that were previously unoccupied due to substandard conditions. These units will be renovated to enable them to be used for the benefit of the Project.

An important legacy of the Project, these restored units will eventually be added to the inventory of privately-owned SRO hotel rooms available in the community.

2.4 Skills Training and Job Creation

BC Housing incorporated social benefits into the Project that will provide jobs and skills training opportunities for DTES residents. The hiring of local residents is a key requirement of the final agreement signed with HHI. HHI is committed to providing 60 person years of skills development training and employment opportunities, which includes 20 person years of employment opportunities for First Nations individuals.

HHI began discussions in January 2013 with several key organizations in the DTES to create partnerships that will use their internal career development programs to assist in the filling of appropriate positions.

2.5 Heritage Conservation

The 13 SROs are considered to be historic and significant buildings that form part of the heritage landscape of Vancouver. BC Housing undertook an evaluation of the buildings and identified that nine had either City of Vancouver (COV) or federal heritage designation status, while the remaining four had neither.

The Parks Canada Standards & Guidelines for the Conservation of Historic Places in Canada (2004) is the basis in which the COV, the Province and most federal agencies conduct their assessment and treatment of historic places. BC Housing submitted a heritage conservation plan to the COV in respect of all 13 buildings, which included heritage status recognition applications for the remaining four. The plans were accepted by the COV and included appropriate conservation strategies for preservation, restoration and rehabilitation for each building.

A specific scope of work has been identified for each building and some of the work may include retention and renewal of the building façade, staircases, windows and light wells. This work will ensure the heritage status of the buildings, extend their useful service life, and improve and enhance the local community streetscapes.

2.6 Energy Efficient Buildings

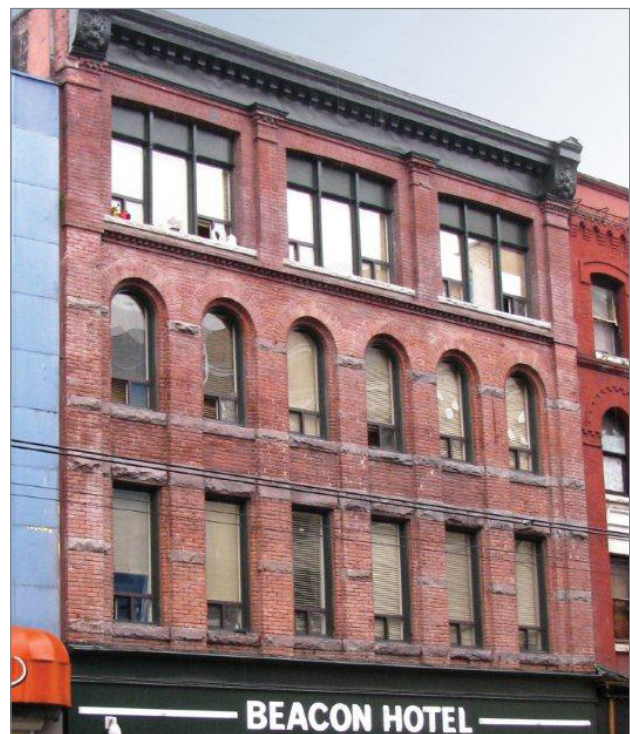
There will be significant energy efficiencies achieved through the replacement and renewal of building systems, such as boilers and building envelope.

Renovations for each of the 13 buildings will include the use of high-quality and energy efficient windows and insulation; energy efficient boilers and upgraded heat and ventilations systems.

These important upgrades will help BC Housing achieve its legislated mandate to be carbon neutral by achieving energy efficiencies and reducing greenhouse gas (GHG) emissions for each of the 13 buildings.



The Beacon Hotel, built 1900-1901.



The Beacon Hotel today, 7 West Hastings Street.

3 Project Background, Objectives and Scope

3.1 Background

Beginning in 2007, BC Housing acquired 24 SRO hotels in Vancouver's DTES from the private sector market as part of its strategy to address homelessness in this community.

The SROs had suffered decades of neglect and deferred maintenance and as a result, had fallen into a significant state of disrepair and were close to being uninhabitable. BC Housing ensured initial upgrades were undertaken to address immediate health and safety concerns however, it was well documented that more investment in building renovations was critically needed to raise the standard of living conditions.

Left in their current state, the buildings would continue to seriously deteriorate, become more expensive to repair and ultimately, become uninhabitable. This would negatively impact the ability of BC Housing to provide affordable and supportive housing in the DTES. The potential for this vulnerable group of people sliding back into homelessness was not acceptable and therefore, BC Housing took immediate action to address the issue.

In 2010, BC Housing developed a concept plan that described the urgent social housing need in Vancouver's DTES, identified required funding for essential renovations and to seek approval from the Province to proceed to the development of a full business case. Approval was received and BC Housing developed a business case that targeted 13 SROs that were identified as the most in need of renovations. In 2011, the Province approved the business case and authorized BC Housing to proceed to the competitive selection process phase for the Project.

3.2 Profile of SRO Residents

Residents typically include low income earners and people with addictions, health and mental health issues. Residents also include women fleeing abusive relationships, people with physical and developmental disabilities, seniors and a high portion of First Nations.

Studies² have shown that approximately 79 per cent of residents have health concerns, 47 per cent have multiple health concerns and 33 per cent suffer from mental illness. The studies also revealed that residents are:

- 79 per cent male;
- An average age of 46 years;
- 68 per cent Caucasian, 21 per cent Aboriginal or Métis;
- Living below the poverty line with an average total monthly income of \$1,109;
- Involved in 30 per cent of all police calls for service and assistance in Metro Vancouver in 2008; and
- Estimated to cost the Province approximately \$30,000 to \$40,000 additionally per person annually if a resident leaves a SRO and returns to the street.

Adequate housing is the cornerstone of care for addressing homelessness. Homeless people with complex problems are more likely to return to the street, emergency rooms and inpatient wards and the justice system if they are not provided with adequate housing and support services.

For those with alcohol and drug problems, including those dually diagnosed, overcoming their conditions may be impossible without adequate housing.

By providing a safe, secure and clean living environment, SROs can become the first step for many of these residents in breaking the cycle of homelessness.

² Concept Plan 2012: Demographic Study of Downtown Eastside SRO and Social Housing Tenants; Housing and Supports for Adults with Severe Addictions and/or Mental Illness in BC; and, City of Vancouver, Vancouver Police Department, Crime Incident Statistics, 2007/ 2008, 2009.

3.3 SRO Hotels

SROs provide residents with short-term or long-term accommodation in single rooms, typically without private bathrooms or kitchens. The following 13 SROs are located in Vancouver's DTES, as indicated in the map below, and form the basis of the SRI Project:

1. Beacon Hotel, 7 West Hastings Street
2. Cordova Residence/Cordova Rooms, 56 Cordova Street East
3. Dominion Hotel, 210 Abbott Street
4. Hazelwood Hotel, 344 East Hastings Street
5. Roosevelt/Molson's Bank Building, 166 East Hastings Street
6. Washington Hotel, 177-179 East Hastings Street
7. Gastown Hotel, 110 Water Street
8. Marble Arch Hotel, 518 Richards Street
9. Tamura House, 398 Powell Street
10. The Rice Block, 404 Hawks Street
11. Orange Hall, 329-341 Gore Avenue
12. Sunrise Hotel, 101 East Hastings Street
13. Marr Hotel, 401 Powell Street



3.4 Project Objectives

BC Housing developed the following objectives for the Project:

- Provide satisfactory accommodation for 900 people within the next 10 years;
- Provide flexibility to meet future demand and to reduce the number of people at-risk of homelessness in the DTES;
- Reduce BC Housing's unfunded liabilities and increase the useable life of the SROs;
- Help BC Housing reach carbon neutrality, energy efficiency and reduced GHG emissions; and
- Support and facilitate revitalization of Vancouver's DTES through job creation, safer streets and improved living conditions.

3.5 Scope of the Project

The SRI project includes the major renovations of 13 SROs encompassing approximately 40,000 m². For each SRO, the scope of work will include:

- Design completion and approval by BC Housing;
- Obtaining permits (demolition, building, heritage, SRO hotel bylaw);
- Scheduling and coordination with BC Housing for relocation and return of tenants;
- Structural building safety and envelope renovations;
- Inspections and acceptance by authorities;
- Orientation and training of new building systems for non-profit agencies that will provide building management services; and
- Commencement and ongoing facility management and life cycle services in collaboration with BC Housing and the non-profit organizations over the 15-year term of the Project Agreement.

To accelerate completion of the Project, early works began at the Marble Arch Hotel in October 2012.

HHI will be responsible for providing facilities maintenance services for the life of the agreement, returning the buildings in a fully-maintained condition at the end of the term as specified in the Project Agreement. Example of facilities maintenance services include:

- Life cycle maintenance (major capital renewal and repairs);
- Major building system operations;
- Building security systems; and
- 24-hour maintenance call centre.

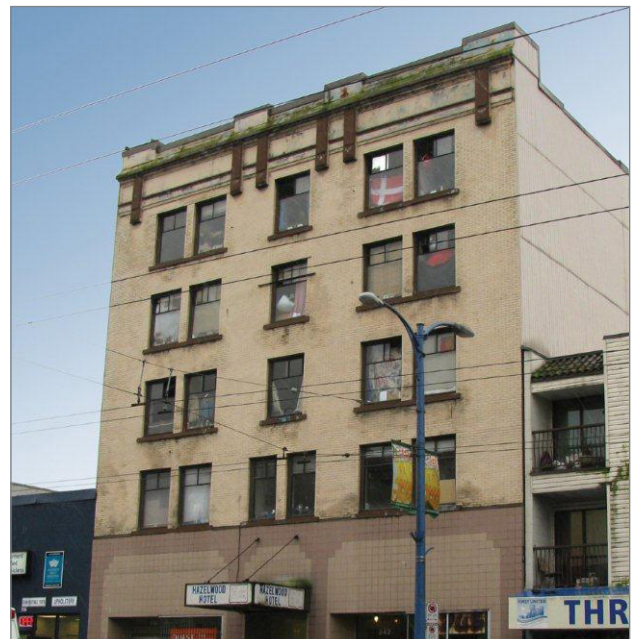
The Project Agreement includes social development initiatives to promote employment and skills training for residents of the DTES, as referenced in Section 2.4.

3.6 Non-Profit Operating Partners

BC Housing has non-profit operating partners that play an important role in the delivery of day-to-day building and tenant management and support services. The existing role of the property management companies and non-profit housing partners and their services does not change and will remain under contract to BC Housing.



Pictured in 1947, the Hazelwood Hotel built in 1912 by Thos Hooper Architect.



The Hazelwood Hotel today, 342 East Hastings Street.

4 Project Delivery Options

In accordance with the Capital Asset Management Framework (CAMF), the project team undertook a procurement options analysis to determine an optimal procurement method for the SRI project.

4.1 Methodology

The evaluation of procurement options is mainly concerned with identifying the method of delivering the project that will result in the greatest value for money on both a financial (quantitative) and qualitative basis. In financial terms, value for money is established by calculating the estimated cost of a project, based on a particular partnership procurement method, and comparing it to the estimated cost if the project were procured using another method.

The evaluation of procurement options involves two main steps. The first step identifies key procurement objectives, and provides a qualitative assessment of a wide range of available procurement options including both traditional and partnership methods. The assessment of these procurement options is intended to identify the two procurement methods most relevant to the project, which then form the basis of comparison.

The second step in the assessment involves a more detailed, quantitative analysis that compares the two methods. A comprehensive risk analysis is conducted and financial models representing the two procurement methods are developed and compared. Both procurement methods consider detailed financial inputs that reflect key project components during the construction and operating periods, as well as associated public sector costs under each option.

To ensure that a complete comparison is being made, the analysis also considers inputs that address financing and taxation issues along with adjustments to ensure competitive neutrality that include items such as, how each model accounts for insurance costs. Without these adjustments, some costs may be understated in some areas and consequently would not reflect the true cost to government. When the procurement models being compared will result in significantly different cash flows, a discount rate is applied to the projected future cash flows to facilitate an accurate comparison of the two approaches in present day dollars. Discounting allows procurement methods with different cash flow impacts—such as all payments made in the first year of a 15-year period versus payments spread over the 15 years—to be compared on a like-for-like basis. Comparing competing options in this way provides an objective means of determining the approach that provides the best value in terms of cost.

The results of this quantitative comparison between the two procurement methods, together with the qualitative criteria, are used to determine the method that is expected to provide the best potential value for money.

4.2 Project Procurement Objectives

Procurement options were carefully considered through the development of procurement objectives based on the project objectives. The following procurement objectives were developed by BC Housing to provide guidance in the selection and analysis of procurement options:

- Innovation
- Efficient risk allocation
- Cost certainty
- Timely completion
- Sustainable social housing
- Heritage facility preservation

4.3 Procurement Options Analyzed

Based on discussions with BC Housing that considered the Project and procurement objectives and the Project scope, the project team determined that the traditional means by which BC Housing would procure the Project would be a series of design, bid and build (DBB) procurements to deliver the retrofits for each building. Additional analysis by the project team determined that a DBFM procurement approach would be the most appropriate PPP structure to consider for a detailed comparison. These two options are described further below.

Design Bid Build (DBB): BC Housing would engage an architect to develop a detailed design (working drawings) for the renovation of the 13 SROs. The architect would complete the working drawings and then BC Housing would issue tender calls for multiple contracts. The lowest qualified price per building would be selected and a fixed price construction contract would be used. The construction contractors would take responsibility for construction to the specifications detailed in the working drawings developed for BC Housing by its architect. BC Housing would remain responsible for errors and omissions in the design and would make monthly progress payments to the contractors. Once the building renovations are completed, BC Housing would enter into multiple contracts for the day-to-day operations and maintenance of the buildings for its entire lifespan.

BC Housing would retain key design and construction risks, such as schedule, construction cost and life cycle maintenance costs. Separate parties would design, build and maintain the various components of the buildings.

BC Housing would be responsible to coordinate the involvement of design and maintenance groups. BC Housing has successfully delivered projects on time and on budget using the DBB model in the past.

Design Build Finance Maintain (DBFM): This partnership delivery model involves a two-stage competitive selection process. The first stage is a Request for Qualifications (RFQ), whereby Respondent teams would submit qualifications to be received and evaluated, resulting in a shortlist of Proponents who would then be invited to submit proposals to the second stage of the process. The second stage of the process is the Request for Proposals (RFP). At the RFP stage, BC Housing would provide performance specifications and seek proposals from the Proponents to design, build, finance and maintain the buildings.

The project team would evaluate these proposals to determine a Preferred Proponent with which to enter into a Project Agreement. Under the Project Agreement, the successful proponent would be required to design, build, partially finance and maintain the SRI project over the specified term of the agreement.

Performance payments would be made monthly to the private partner over the life of the agreement, at a fixed rate determined at Financial Close. Payments only commence once the asset is completed to the satisfaction of BC Housing. To ensure that the private partner receives full payment, they must meet defined and measurable performance and availability standards on a continuous basis. The DBFM approach provides a financial structure that aligns the incentives of the private partner and BC Housing.

Under the DBFM option, the private partner would be responsible for:

- Arranging project financing, including equity, for facility construction and maintenance over a specified term (18 years, which includes an approximate three year construction period);
- Designing and building the project asset; and
- Maintaining the asset over the life of the project agreement and handing it back at the end of the contract term in the prescribed condition.

4.4 Results of the Procurement Options Analysis

Based on the procurement options analyzed, the DBFM method was determined to be the preferred procurement option, expected to best meet the Province's procurement objectives and overall project objectives.

4.5 Achieving Value for Money

Value for money is a term that captures both the quantitative and qualitative benefits that are expected to be achieved by the decision to deliver the project using the partnership method. Quantitative value for money is achieved through the lower project cost resulting from a particular procurement method. Qualitative value is achieved when a particular procurement method is best able to support the broader objectives of a project.

PARTNERSHIP PROJECTS TYPICALLY PROVIDE THE FOLLOWING QUALITATIVE BENEFITS

Competition and innovation: The competitive nature of the bidding process encourages the private partner teams to develop innovative solutions in all aspects of the project from design and construction through to operations.

Schedule certainty: The private partner receives a significant portion of their payment through monthly availability payments once the facilities are available for use, thereby providing a financial incentive to complete the project on time.

Cost certainty: The Project Agreement is a fixed price contract.

Integration: The private partner is responsible for the design and construction, long-term operations, maintenance and rehabilitation of the assets. This creates opportunities and incentives to integrate these functions to optimize performance of the facilities over the duration of the Project Agreement.

Life cycle maintenance: The private partner is responsible and accountable for ensuring the facilities are maintained and rehabilitated over the duration of the Project Agreement otherwise the ASP may be reduced.

5 Competitive Selection Process

A two-stage, competitive selection process was undertaken for the project.³ During the RFQ stage, respondents were asked to present their qualifications for the project. Six teams responded to the RFQ. A shortlist of three Proponent teams was selected and invited to participate in the RFP stage process. The Proponent teams invited to compete are described below.

PROPONENT	DESIGN LEAD	CONSTRUCTION LEAD	FINANCING LEAD	FACILITIES MANAGEMENT LEAD
Habitat Housing Initiative	<ul style="list-style-type: none"> Merrick Architecture -Borowski Sakumoto Fligg Ltd. 	<ul style="list-style-type: none"> Ameresco Canada Inc. 	<ul style="list-style-type: none"> Forum Equity Partners (Co-developer and financing lead) Brookfield Financial (Co-developer) Ontario Pension Board (Co-financier) 	<ul style="list-style-type: none"> Black & MacDonald Ltd.
Integrated Team Solutions	<ul style="list-style-type: none"> Acton Ostry Architects Inc. Donald Luxton & Associates Inc. 	<ul style="list-style-type: none"> EllisDon Corporation 	<ul style="list-style-type: none"> EllisDon Inc. Fengate Capital Management Ltd. 	<ul style="list-style-type: none"> COFELY Services Inc.
Concert Partnership Works	<ul style="list-style-type: none"> dys Architecture Musson Cattell Mackey Partnership (Vancouver) Robert Lemon Architect Inc. 	<ul style="list-style-type: none"> Concert Properties Ltd. BOSA Construction 	<ul style="list-style-type: none"> Concert Infrastructure Fund Concert Real Estate Corporation 	<ul style="list-style-type: none"> Concert Realty Services Ltd.

During the RFP stage, collaborative and topic meetings were offered so that each team had the opportunity to discuss issues or concerns related to commercial, legal, design and construction and facilities management matters. Prior to the closing date for submissions, a final draft Project Agreement was issued and it served as the common basis for all proposals.

The timeline of the competitive selection process is outlined in the table below.

PROCUREMENT STAGE	TIMING	OUTCOME
Request for Qualifications	October 2011 to January 2012	The project was marketed locally, provincially, nationally and internationally. Submissions from six respondents were evaluated and a shortlist of three teams was announced January 2011: <ul style="list-style-type: none"> Habitat Housing Initiative Integrated Team Solutions Concert Partnership Works
Request for Proposals	February to October 2012	Proposals were received from two of the shortlisted teams.
Selection of Preferred Proponent	October 2012	After evaluation of the proposals, Habitat Housing Initiative was selected as the Preferred Proponent.
Project Agreement Finalization	December 2012	The Project Agreement was signed by BC Housing and Habitat Housing Initiative

³ The RFQ and RFP procurement documents are publicly available at www.partnershipsbc.ca

5.1 Evaluation of Proposals

BC Housing appointed an evaluation committee to undertake the evaluation of the proposals by applying the criteria and procedures set out in the RFP. The overall objective of the evaluation was to select the proposal that provided the best project, met the terms of the RFP and achieved value for money.

5.2 Fairness Advisor

A fairness advisor, Joan M. Young, McMillan LLP, was engaged to monitor the competitive selection process and offer an assessment about the procedures and whether or not the selection process was carried out in a fair and reasonable manner. The fairness advisor was provided access to all documents, meetings and information related to the evaluation processes throughout both the RFQ and RFP stages.

The fairness advisor issued reports for both the RFQ and the RFP stage of the competitive selection process. The report of the fairness advisor concluded that, *"The SRO Renewal Initiative Project team members, and their advisors, followed the procedures and fairly applied the evaluation criteria specified in the procurement documents and subsequent documents,"* and *"I am satisfied that I have been provided with the appropriate access and information to render this fairness opinion to the Project Board."*

The fairness advisor's reports are publicly available at www.partnershipsbc.ca

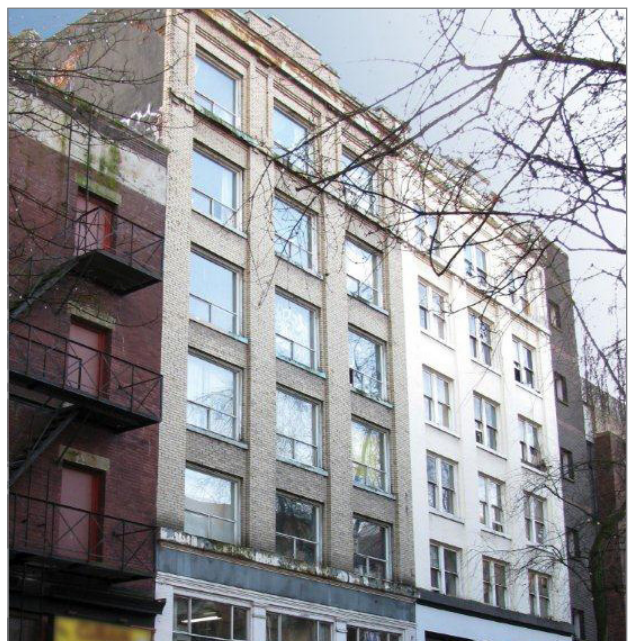
5.3 Competitive Selection Costs

The cost of the competitive selection process is factored into the value for money analysis. The total competitive selection cost for the Project from approval of the business case to financial close is \$6.2 million, including the cost of developing performance specifications, preparing procurement documentation, obtaining advice from external advisors and partial compensation of \$400,000 to the unsuccessful RFP Proponent.

The decision to offer partial compensation is made on a case-by-case basis and can be used to: encourage competition; ensure the quality of proposals submitted; secure access to intellectual property; and, mitigate costs incurred by Proponents in developing their proposals. Materials developed for this Project will be used to improve the efficiency and quality of the procurement process for future partnership projects.



The Gastown Hotel built in 1912-1913, Sharp & Thompson Architects.



The Gastown Hotel, 110 Water Street.

6 The Final Project Agreement

QUICK FACTS	
Private partner	Habitat Housing Initiative
Project Owner	BC Housing
Government of Canada, P3 Canada Fund contributions during construction	\$29.1 million (nominal dollars) ⁴
Construction complete	Spring 2016
Term of the Project Agreement	18 years, including construction
NPC of the ASPs	\$134.0 million

6.1 Profile of the Private Sector Partner

HHI is the private partner for the SRI project. HHI is a consortium of companies qualified through the RFQ period and consisting of the following key members:

- **Consortium Lead – HHI**

Forum Equity Partners and Brookfield Financial served as co-development and co-consortium leads in connection with the development of the Proposal up until Financial Close. Forum Equity Partners continues as the sole Developer and sole consortium lead following Financial Close and is the consortium's general manager engaged in all aspects of the financing, planning, design, renovations maintenance and performance monitoring for the full concession term.

- **Equity Providers – Forum Equity Partners Inc. (Forum) and the Ontario Pension Board (OPB)**

Forum Equity Partners and the Ontario Pension Board will together provide 100% of the equity in the project.

- **Lenders – Canada Life Company (Canada Life)**

The Canada Life Assurance Company and Great-West Life Assurance Company will together provide 100% of the senior debt capital for the Project.

- **Design – Merrick Architecture -Borowski Sakumoto Fligg Ltd. (Merrick)**

As the design lead, Merrick will be responsible for the renovation designs for the SROs.

- **Construction – Ameresco Canada Inc. (Ameresco)**

Ameresco will take primary responsibility for the Project's design-build requirements and utilize subcontractors to perform some of its design-build activities. The construction management subcontractor role for the Project is Darwin Construction (Canada) Ltd.

- **Facility Management Services – Ameresco Canada Inc. (Ameresco)**

Ameresco will have primary responsibility for life cycle deliverables.

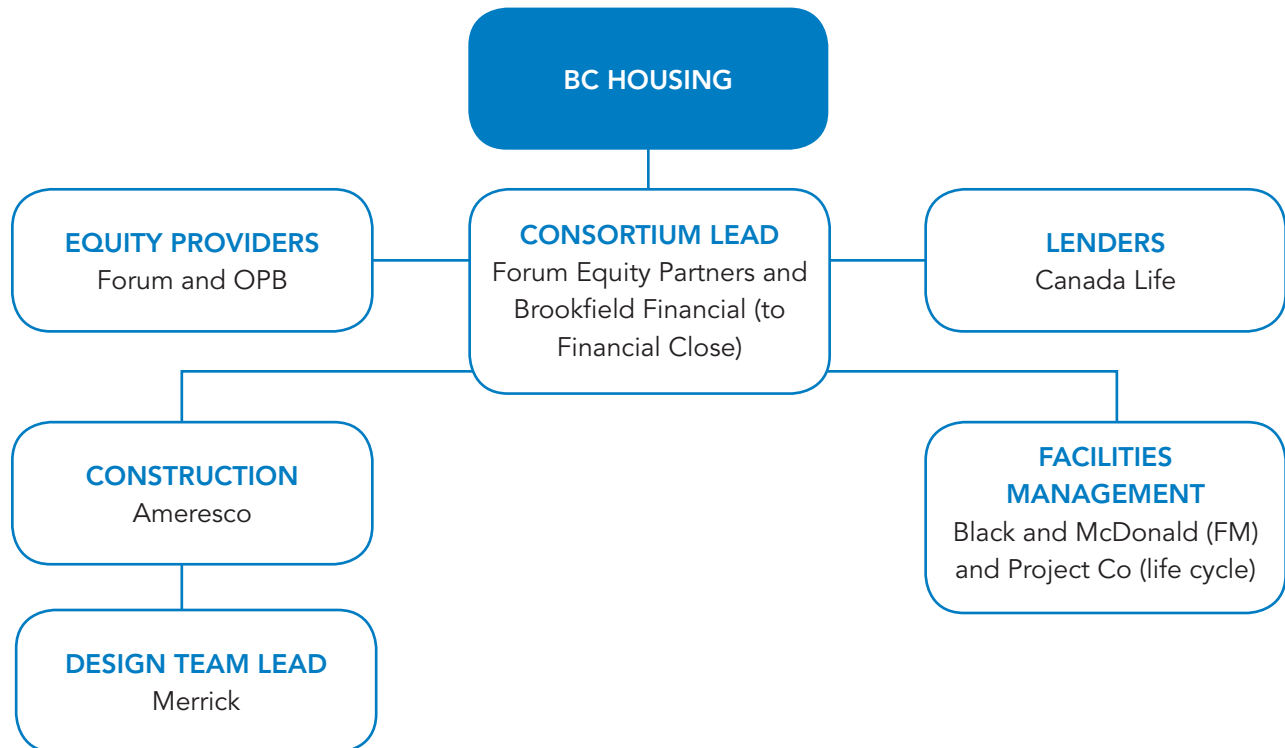
Black & MacDonald Ltd. is the key service provider for facilities management services for the SROs.

Crosby Property Management Ltd. will support Ameresco and Black and MacDonald Ltd. in the delivery of facilities maintenance services.

All companies within this consortium have established records in delivering and maintaining projects of this nature.

⁴ \$32.7 million is the NPC, as presented in Table 1 on page 19.

FIGURE 1: RELATIONSHIP BETWEEN BC HOUSING AND HHI



6.2 Key Terms of the Project Agreement

Under the terms of the Project Agreement, HHI is responsible for the following:

- Arranging a portion of financing for construction and facility management services for an 18-year term (inclusive of the construction period);
- Designing and renovating the SROs⁵;
- Providing specified facility management and life cycle services, including providing specified facility management services for pre-completed buildings during the construction period and post project completion, during the 15-year operating period. Activities include:
 - Maintenance planning;
 - Major building system operations;
 - Compliance and regulatory inspections;
 - Building security systems;
 - 24-hour maintenance call centre; and
 - Life cycle maintenance (major capital renewals and repairs).
- Returning the buildings in a fully maintained condition at the end of Project Agreement term.

BC Housing owns the 13 SROs and maintains control and decision-making over the programs and services delivered.

⁵ See Section 3.5 for details on project scope.

6.3 Key Features of the Preferred Proponent's Proposal

HHI submitted a strong technical submittal that clearly demonstrated the consortium has the expertise and capacity to design, construct, partially finance and maintain the Project.

When the RFP was issued to the three shortlisted proponent teams, it contemplated a 66-month construction schedule. The schedule factored in a requirement to temporarily relocate some SRO residents to swing-space accommodation in the DTES. Securing swing-space was identified early on as a significant challenge and risk due to lack of supply of appropriate accommodation in the local community.

In response, HHI put forward an innovative proposal with a creative solution to both temporary tenant relocation and construction challenges, thereby reducing the overall project schedule by 24 months.

HHI's proposal outlined a solution to secure up to 175 privately-owned rental units that were previously off the market and unoccupied due to substandard conditions. HHI proposed renovations to upgrade the units to BC Housing's satisfaction and secured these units for the duration of the construction period to be used as temporary swing-space accommodation. The benefit of this approach allows construction crews to gain access to each SRO and complete renovations more expeditiously than previously thought attainable.

This approach resulted in cost savings due to a shorter construction schedule and provides residents with the benefit of accessing their renewed homes much earlier than anticipated.

6.4 P3 Canada Fund

The Government of Canada through PPP Canada Inc.—manager of the P3 Canada Fund—will contribute \$29.1 million towards eligible costs for the renovation of the buildings. This contribution will be paid upon substantial completion of each building based on eligible costs and is part of the funding payments that HHI will receive against construction costs as certified by an independent certifier.

6.5 Performance-Based Payment Principles

HHI is incented to perform through a payment mechanism that is based on the principles of performance, facility availability and service quality.

As each of the 13 buildings is completed, HHI will start to receive monthly building opening payments, which includes payment for facilities maintenance services. Each building opening payment is subject to a five per cent hold back in order to incent the private partner to complete and deliver the Project by the service commencement date as specified in the Project Agreement. Service commencement is achieved upon completion of the 13th building, at which time the five per cent hold back per building is paid to HHI and the ASPs begin. These ASPs are paid in monthly instalments and are based on the availability of the SROs and the quality of facility maintenance services provided.

The performance of HHI will be continuously monitored based on key performance indicators. If the performance standards in the Project Agreement are not met, BC Housing may apply deductions to the ASP. An unavailability deduction can apply when a building or portion of a building fails to comply with the conditions specified in the Project Agreement.

For example, if a building with 120 functional units (residential rooms, reception, washrooms, kitchen, etc.) has an elevator out of service and the condition is not rectified within one day, the payment to HHI could be reduced by \$8,000 for each day of unavailability.

6.6 Adjustments to Payments

The ASP may be adjusted to reflect specific circumstances as defined in the Project Agreement, including:

- **Change in Law:** If there is a discriminatory change in law, the ASP may be adjusted to leave HHI in no better or worse position than if that change in law had not occurred.
- **Compensation Events:** If an event occurs that interferes adversely with HHI's ability to meet its obligations through no fault of their own and warrants compensation, the amount may be provided by adjustment to the ASP or as a lump sum payment.
- **Deductions:** The monthly ASP payment may be reduced if HHI does not meet the performance standards outlined in the Project Agreement. Deductions will vary depending on the incidents' severity and duration as described in Section 6.4.
- **Indexation:** The capital component of the ASP will not be indexed. The services component (e.g. facilities management services and life cycle costs) of the payment is indexed by the consumer price index (CPI) with periodic adjustments to the payment through benchmarking.
- **Variations:** If BC Housing requires HHI to make a design change or amend the services, then BC Housing can either make a lump sum payment or have the cost of the change financed by HHI. If BC Housing chooses to have the change financed, the cost will be reflected in an adjusted ASP. Also, if a change has ongoing impacts to the facilities management services or the life cycle of the buildings, this will also impact the ASP. The mechanism for developing and determining the cost of a variation is set out in the Project Agreement.



East Hastings Street 1949.

6.7 Risk Allocation Summary

The Project Agreement includes detailed risk allocation provisions over the construction period and 15-year operating term. This approach transfers key risks to HHI—such as construction, cost and schedule—and adds value through design and private sector innovation.

The table below summarizes key risk allocation between BC Housing and HHI.

This risk allocation is supported by the following provisions in the Project Agreement:

- HHI will start receiving ASPs from BC Housing when buildings are completed and ready for occupancy, thus providing an incentive to complete the project on-time and on-budget.
- The expiry date of the Project Agreement is fixed, so any delays in completing construction will reduce payments to HHI, providing them with a strong incentive for timely completion of the Project.
- Provisions are in place to reduce the ASP if HHI does not meet the performance standards in the Project Agreement for facility availability and maintenance.

RISK	RETAINED BY BC HOUSING	TRANSFERRED TO HHI	SHARED
Change in law			•
Commissioning		•	
Construction		•	
Change in the cost of furnishings and installation		•	
Design		•	
Existing site conditions	•		
Existing structural risk			•
Financing after Project Agreement execution		•	
Force Majeure			•
Geotechnical		•	
Labour costs during operations			•
Life Cycle		•	
Maintenance		•	
Ownership	•		
Schedule		•	
Scope changes	•		
Regulatory and code compliance		•	
Utility unit costs and consumption	•		

6.8 Quantitative Benefits

The estimated NPC of the Project delivered using a DBB approach is \$207.4 million. The estimated NPC of the Project delivered using the DBFM approach and HHI's proposal is \$202.2 million. A comparison of these numbers is provided below. In financial terms, the final Project Agreement is estimated to achieve value for taxpayers' dollars of \$5.2 million, when compared to the alternative procurement option.

TABLE 1: VALUE FOR MONEY TABLE

NET PRESENT COST (millions)	FINAL PROJECT COST	DBB OPTION
Annual Service Payments to HHI	134.0	n/a
P3 Canada Fund Contribution to Capital Cost	32.7	
Capital Costs	n/a	123.5
Life Cycle and Operating Costs		21.8
Risk Adjustment		28.1
Project management costs including HST, insurance and procurement	35.6	34.0
Total	202.2*	207.4*
Cost Differential	5.2	
Percentage savings	2.5%	

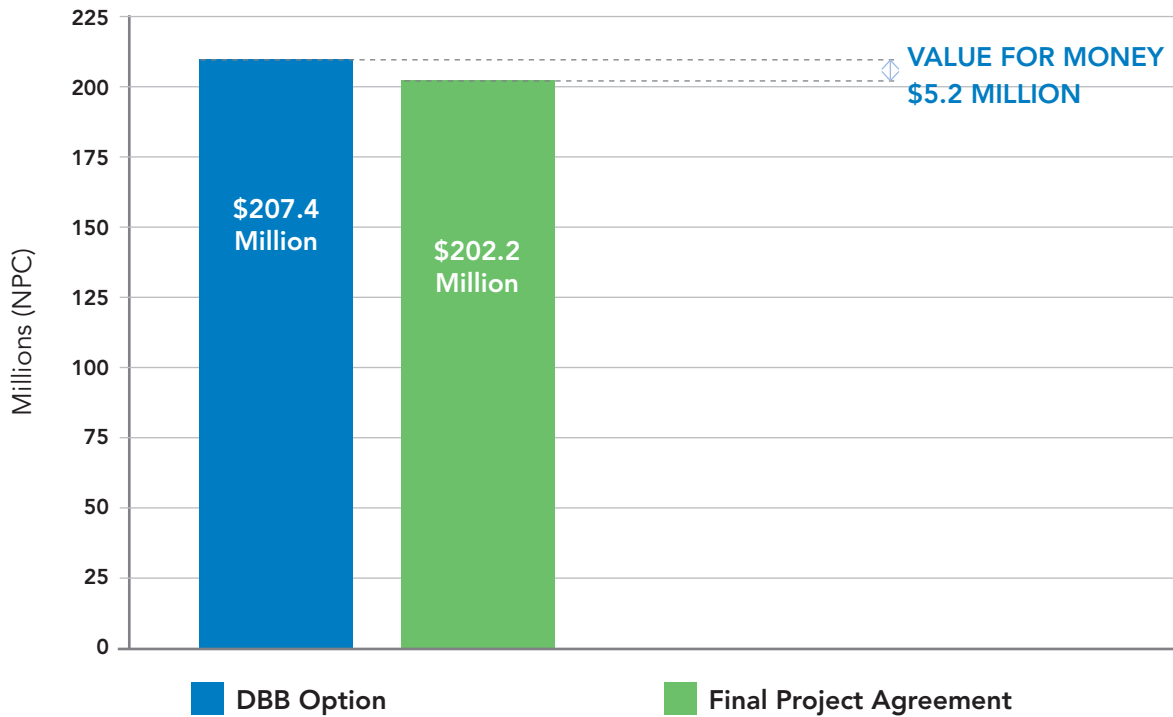
Significant factors contributing to value for money include efficiencies from competitive construction pricing, scheduling, integrating the design, build and finance teams, and an efficient allocation of risk. The value for money analysis was made following established methodology.⁶ The NPC of the figures described above were developed using a discount rate⁷ of 6.64 per cent at January 2017, which represents the costs of capital over time, taking into account factors such as inflation and interest rates.

⁶ Partnerships BC's Discussion Paper: Methodology for Quantitative Procurement Options Analysis is publicly available at www.partnershipsbc.ca

⁷ The discount rate used for the calculation of value for money (VFM) is 6.64 per cent. The 6.64 per cent discount rate is the project Internal Rate of Return (IRR) which was calculated using the private partner's financial model cash flows. This calculation was performed using Partnerships BC's project IRR calculation methodology.

To test the impact of a change in the discount rate on the quantitative VFM proposition of the DBFM model versus the DBB model, the modeling results were re-calculated assuming a discount rate 50 basis points higher and 50 basis points lower than the base discount rate. It should be noted that no change in the estimated value of risks was undertaken in conjunction with the change in discount rates used in the sensitivity analysis. A change in the discount rate, either higher or lower, would require a reassessment of the risks of the project. The results of the sensitivity analysis of the discount rate showed that the NPC of the final project agreement would have been approximately \$1.9 million less than the PSC if the discount rate was 50 basis points lower, and about \$8.4 million less than the PSC if the discount rate was 50 basis points higher.

FIGURE 2: VALUE FOR MONEY - COST COMPARISONS



6.9 Accounting Treatment

B.C.'s Office of the Comptroller General, responsible for the overall quality and integrity of the Province's financial management and control systems, has established accounting guidelines for partnership projects. Based on accounting guidelines, the capital cost, for accounting purposes, for the construction of the SRI project is expected to be about \$119.6 million. This figure includes only the capital cost for the building renovations and does not include costs for equipment, insurance, HST, the competitive selection process, implementation, or contingencies. These costs are accrued to the Province through the construction period as the costs are incurred.

7 Ongoing Project Agreement Monitoring

The Project Agreement with HHI includes specific provisions to ensure project delivery, performance and quality standards are met. Monitoring spans every phase of the project, from Financial Close through design and construction, facility operations and maintenance. There are a number of major phases in the project monitoring schedule, with roles and responsibilities assigned to project participants at each stage.

7.1 Design and Construction Phase

The Project Agreement stipulates that both BC Housing and HHI must appoint design and construction representatives. The BC Housing representative has the authority to act on behalf of BC Housing during the design and construction phase of the project, and to review, approve, accept or confirm HHI's activities in accordance with the Project Agreement. The BC Housing representative is supported by a compliance team of professionals. The BC Housing representative and the compliance team will have full access to the construction site, drawings and specifications, and will report observations to BC Housing with regularity.

In addition, a Construction Period Joint Committee (CPJC) will be formed at the commencement of construction. The CPJC formalizes communications between BC Housing and HHI with the purpose of providing a formal forum for the parties to consult and cooperate in all matters relating to the Project during construction. The CPJC is a requirement of the Project Agreement and will remain in place until construction is complete and service commencement has been achieved.

In support of the aforementioned monitoring activities, BC Housing and HHI have also jointly appointed an independent certifier who will monitor and report on construction progress, and provide certification that the conditions for service commencement have been achieved.

7.2 Operations and Maintenance Phase

The Project Agreement stipulates that both BC Housing and HHI must appoint a representative to serve as a member of the Operating Period Joint Committee over the 15-year operating term of the agreement. The committee is a formal forum for the parties to consult and cooperate on all matters related to the facility during the operational term.

During the operations phase, HHI will provide BC Housing with the following plans for review and approval:

- Annual and five year plans for facilities maintenance and life cycle; and
- Management of building needs to conform to plans and performance indicators outlined in the Project Agreement.

7.3 Quality Management

The Project Agreement is designed to motivate HHI to ensure delivery, performance and high standards of quality given the monetary consequences of not achieving these requirements.

HHI is required to have a performance monitoring program in place during the operating period that will monitor the delivery of services. All reports generated from this program and supporting data are readily available to BC Housing at any time for audit purposes. Monthly reports delivered to BC Housing will contain a variety of information, including:

- Summary of calls made to the facilities management help desk and their resolution;
- Summary of unavailability events and service failures;
- Calculation of the monthly service payment owed to HHI; and
- A summary of all life safety actions and statutory testing (e.g. fire extinguisher inspections).

These reports allow for a thorough review and analysis on a monthly basis by BC Housing to ensure the buildings are performing as intended. It will also ensure building operations and conditions are consistent and achieving Project objectives established at the start of the Project. The reports provide key information that determines if a building is being properly maintained or not in (nature of help desk call and frequency of calls) accordance with the performance standards set out in the Project Agreement.

There are strict penalties if HHI misrepresents the monthly report, potentially leading to contractor default.

7.4 Hand-Back Requirements

At the end of the 15-year operating term, the buildings must be in a condition that is consistent with the services and maintenance specifications in the Project Agreement. For example, it would not be acceptable for the building fabric to be failing, the flooring to be worn or the general environment to be unkempt. HHI and BC Housing will jointly appoint and pay for an independent party to inspect and survey the condition of the buildings in advance of the end of the project term. HHI is responsible for meeting the hand-back requirements at the end of the project term.

Building conditions will be consistent with completion of all planned work agreed to during the operations period and need to be acceptable to the Owner. Keeping facility conditions up during the operations period through ongoing maintenance will ultimately lead to hand-back conditions being satisfactory.



Orange Hall Hotel built in 1904-1907, W.T. Whiteway or J. Gillot

7.5 Project Agreement Reviews

BC Housing and the Ministry of Energy, Mines and Natural Gas, Ministry Responsible for Housing, will work together to review the Project Agreement at appropriate intervals from the start of operations. This review will focus on whether the Project Agreement is functioning as intended and whether the expected services and benefits are being realized. The intent is to ensure satisfactory performance and ensure administrative elements are being applied correctly.

7.6 Project Board

A project board was established in 2011 to provide guidance and oversight for the implementation of the project, including the traditional capital components. Members of the project board include representatives from the Ministry of Energy, Mines and Nature Gas, Ministry Responsible for Housing, the Ministry of Transportation and Infrastructure, the Ministry of Finance, BC Housing and Partnerships BC.

BC Housing has assembled an integrated project management team that will be responsible for implementing the project through design, construction and operating period. The project team reports through the project manager to the project board.



Orange Hall today, 341 Gore Avenue.

8 Glossary of Terms

Affordability Ceiling: The net present cost of the maximum government will pay in annual service payments over the life of the project.

Annual Service Payment (ASP): The mechanism by which a private partner in a PPP arrangement is often compensated. According to performance standards specified in a Project Agreement, an ASP is paid to the private partner for capital and operating costs, as well as their required rate of return, over the term of the agreement.

Business Case: Document prepared in British Columbia by a project owner demonstrating the need and cost/benefit of a project, in addition to supporting a procurement method and providing an overview of the accounting impacts that a project may have.

Competitive Neutrality: A circumstance where competitive advantages that typically accrue to government as a result of public sector ownership are neutralized through a series of adjustments that permit a fairer comparison of non-public sector alternatives.

Discount Rate: A rate used to relate present and future dollars. Discount rates are expressed as a percentage and are used to reduce the value of future dollars in relation to present dollars. This equalizes varying streams of costs and benefits, so that different alternatives can be compared on a like-for-like basis.

Financial Close: The point in the procurement process where negotiations with a preferred proponent are finalized and a Project Agreement is executed, allowing construction to begin.

Independent Certifier: Independent, third-party certifier engaged jointly by the owner and the private partner to verify and certify whether certain conditions of the Project Agreement are being satisfied.

Life Cycle: The long-term requirements to maintain and rehabilitate an asset.

Net Present Cost (NPC): NPC refers to the value of periodic future cost outlays when they are expressed in current, or present day, dollars by discounting them using the discount Rate.

Nominal Cost: Means costs calculated in nominal terms at current prices recognizing adjustments for inflation.

Operations: The ongoing processes or activities of a practical or mechanical nature that are involved in running a facility, such as janitorial services in a building or snow removal on a roadway.

Owner: Usually a provincial ministry, authority or agency that is undertaking a needs assessment and benefit analysis to determine if a project will satisfy service delivery requirements, and that will own the project and fund the annual service payments if a project proceeds as a PPP.

Partial Compensation: A payment made to unsuccessful shortlisted bidders in a RFP process as partial compensation for expenses incurred in submitting a compliant proposal.

Performance Specification: Specifications developed by the owner that define the output and performance levels required in relation to construction and life cycle performance of an asset, to ensure the completed project satisfies the objectives of a project with respect to meeting the owner's service delivery needs.

Preferred Proponent: A proponent selected from a shortlist of bidders to enter into negotiations with a project owner to reach financial close and deliver a project.

Procurement Decision: The decision by an owner to procure a project in a particular way to achieve value for money.

Project Agreement: The Project Agreement sets out the requirements for the delivery of an asset under a PPP in terms of cost, schedule and life cycle performance that typically govern the performance-based payment of the ASP to a private partner.

Public Private Partnership (PPP): Public private partnership whereby public sector infrastructure is procured using a long-term, performance-based agreement with a private sector partner to deliver and maintain an infrastructure asset, including significant, upfront capital investment.

Request for Proposals (RFP): Document issued by an owner for qualified Proponents to submit formal proposals to deliver a project.

Request for Qualifications (RFQ): Document issued by an owner inviting parties interested in participating in an RFP, to submit their qualifications for delivering a project.

Retained Risk: Risks associated with delivering a project that are not transferred to the private partner under a PPP, representing a cost to the project regardless of the procurement approach.

Service Commencement: The date upon which the following activities have been achieved: the architect certifies substantial performance of the buildings; an occupancy permit has been issued; and, all construction commissioning activities are complete.

Single room occupancy (SRO): Rooming house buildings and residential hotels containing small single rooms, usually about ten by ten feet in size. Residents share common bathrooms and sometimes cooking facilities.

Traditional Procurement: Methods by which the public sector has traditionally procured projects in B.C, through design bid build (DBB), or a combination of DBB and design build (DB) contracts.

Transferred Risk: Risk associated with delivering a project that is typically borne by the public sector under traditional procurement that is transferred to the private sector under a PPP.

Value for Money (VFM): Also commonly referred to as value for taxpayer dollars, VFM describes the benefits to the public expected to be realized through a particular procurement method, and can be quantitative and/or qualitative in nature. Quantitative value for money is achieved through the lower cost of a project resulting from the procurement method, whereas qualitative value is achieved when a particular procurement method better supports the goals and objectives of a project without necessarily costing less.



The Washington Hotel built in 1912, Parr & Fee Architect.



The Washington Hotel today, 177 East Hastings Street.



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